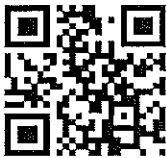




To: Senator Duff, Co- Chair
Representative Tong, Co-Chair
Senator Frantz, Ranking Member
Representative Alberts, Ranking Member
& other distinguished members of the Banks Committee

From: Anne M. Noble, President and CEO, Connecticut Lottery Corporation
860-713-2816, anne.noble@ctlottery.org



Re: Support for HB 5182: AAC a Technical Change Regarding the Financial Security of
Lottery Sales Agents

Date: March 6, 2012

Good afternoon Co-Chairs Duff and Tong, Ranking Members Frantz and Alberts, and other distinguished members of the Banks Committee. My name is Anne M. Noble, and I am the President and CEO of the Connecticut Lottery Corporation. To my right is Lana Glovach, our General Counsel. We are pleased to be here today in support of House Bill 5182, An Act Concerning a Technical Change Regarding the Financial Security of Lottery Sales Agents.

Under CGS § 12-813(c), the President of the CT Lottery has the authority to impose surety bonds on our lottery retailers. Surety bonds are used to ensure the Lottery will be paid for any monies owed in the event a retailer encounters financial difficulty. Surety bonds may be required at the time of the initial application to become a lottery retailer or at a later date after our business relationship has already been established. Customarily, bond requirements occur as a result of poor credit history, failure to make timely payments or other issues that could affect the ability of the Lottery to collect monies owed.

As you may be aware, a surety bond is a three party instrument by which one party (the surety) agrees to perform a second party's obligations (the retailer) to a third party (the Lottery). The surety's obligation to pay the third party is conditioned on the second party's failure to perform and, for this reason, sureties "stand in the shoes" of the second party, meaning that the surety has not only its own defenses to a claim but the second party's defenses as well. If a retailer with a surety bond defaults, the claim process is often lengthy while the surety communicates with the second party and attempts to determine if there are any defenses. As a result, payment is generally not prompt.

In addition to surety bonds, there are other forms of security in the marketplace to protect the Lottery from a retailer's default in payment, including letters of credit and cash escrow agreements. First, in regards to letters of credit, there are various types but essentially a letter of credit is a two party instrument between the issuer (a bank or other financial institution) and the beneficiary (in this case, the Lottery). Unlike the surety bond, the bank has the primary payment obligation, without regard to the underlying contract between the Lottery and its retailer. Usually, letters of credit can be structured so that payment is prompt.

Further, in regards to a cash escrow arrangement, the retailer provides the Lottery with cash, which the Lottery holds as security under the terms of a written agreement between the Lottery and the retailer, and in these instances, payment is normally prompt.

While all of these forms of security have advantages and disadvantages, both a letter of credit and cash escrow typically provide greater protection and quicker liquidity to the Lottery than a surety bond. We have used these forms of security when we believed them to best protect the public's assets.

While our enabling legislation is explicit in authorizing the Lottery to use surety bonds, it does not presently provide explicit authority for us to use letters of credit and cash in escrow in lieu of a bond. Therefore, we are requesting this change to make it clear that using these forms of credit to protect the state's assets is authorized and in the state's best interests.

As you know, the CT Lottery Corporation is a quasi public state agency. Our mission statement begins with the primary goal of “rais[ing] revenue in an entrepreneurial manner for the State of Connecticut.” An important part of being entrepreneurial is being business friendly. Being flexible on the type of security that the CT Lottery Corporation requires is also one easy way the CT Lottery Corporation can help our retail partners achieve their business needs and, in some instances, reduce their costs. Bond premiums today can be very costly so letters of credit or a cash escrow agreement are sometimes financially beneficial. Over 2000 of our approximately 2700 retailers are small businesses, and in this economy, every dollar counts.

This business friendly bill would clarify our current statutes and codify existing practice. We have shared this proposal with our regulator, the Department of Consumer Protection, and they have not indicated any concerns. We hope you will help the CT Lottery Corporation help our retail partners help the state of Connecticut.

Thank you for your time and attention and we are happy to answer any questions you may have.

